

D.P.U. 95-1A

Application of Boston Edison Company:

(1) under the provisions of G.L. c. 164, § 94G, and the Company's tariff, M.D.P.U. 592-A, for quarterly review by the Department of Public Utilities of the annual fuel and purchased power adjustment charge and for approval of interim changes in the New Performance Adjustment Charge and Fossil Generation Performance Adjustment Charge to be billed to the Company's customers pursuant to meter readings in the billing months of February, March, and April 1995; and

(2) for approval by the Department of rates to be paid to Qualifying Facilities for purchases of power pursuant to 220 C.M.R. §§ 8.00 et seq. and M.D.P.U. 545-A. The rules established in 220 C.M.R. §§ 8.00 et seq. set forth the filings to be made by utilities with the Department, and implement the intent of sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978; and

(3) under the provisions of G.L. c. 164, § 94G, for review by the Department of the performance of the Company's generating units for the period of November 1, 1993 through October 31, 1994.

APPEARANCES: John M. Fulton, Esq.
Boston Edison Company
800 Boylston Street
Boston, Massachusetts 02199
FOR: BOSTON EDISON COMPANY
Applicant

L. Scott Harshbarger, Attorney General
By: Joseph Rogers
Assistant Attorney General
131 Tremont Street
Boston, Massachusetts 02108
Intervenor

I. INTRODUCTION

On January 6, 1995, pursuant to G.L. c. 164, § 94G and 220 C.M.R. §§ 8.00 et seq., Boston Edison Company ("BECo" or the "Company") applied to the Department of Public Utilities ("Department") for quarterly review of the fuel cost component of the Company's annual fuel charge¹ and for approval of a quarterly change to its fuel charge in conformance with its tariff, M.D.P.U. 592-A, and to its Qualifying Facility ("QF") power purchase rates in conformance with its tariff, M.D.P.U. 545-A. The Company requested that the change be effective for bills issued pursuant to meter readings in the billing months of February, March, and April, 1995. In addition, on January 20, 1995, the Company filed its actual performance results relating to fuel procurement and use for the twelve-month period November 1, 1993 through October 31, 1994. Pursuant to G.L. c. 164, § 94G, the proceeding was continued in order to investigate performance variances from the goals established for the Company's generating units for the twelve-month period November 1, 1993 through October 31, 1994. These matters were docketed as D.P.U. 95-1A.

Pursuant to notice duly issued, a public hearing on the Company's application was held on January 26, 1995, at the Department's offices in Boston. Notice of the hearing was published in the Boston Herald and The Boston Globe. The Company also complied with the requirement to

¹ On November 4, 1994, the Department approved an experimental annual fuel charge proposal submitted by the Company. Boston Edison Company, D.P.U. 94-1D at 17 (1994). Among other things, the experimental annual fuel charge permits the Company to levelize the fuel cost component at \$0.03059 per month for the period November 1994 through October 1995. Id. at 4. The Company will apply interest to the difference between the cumulative over/under recovery amount under the annual fuel charge and the over/under recovery amount that would normally occur if a quarterly fuel charge were in effect. Id. at 4-5.

mail a copy of the notice of the hearing to all persons with whom the Company has special retail contracts that do not incorporate a filed rate, and to all intervenors and their respective counsel from the Company's prior two fuel charge proceedings. The Attorney General of the Commonwealth ("Attorney General") intervened as of right in this proceeding pursuant to G.L. c. 164, § 11E.

In support of its filing, the Company sponsored two witnesses: Rose Ann Pelletier, power contracts division manager in the fuel and power contracts department and Anne M. Lynch, senior research analyst in the fuel and power contracts department. The Company offered documentation of its fuel charge and performance adjustment calculations in Exhibits BE-1 through BE-9. On January 27, 1995, the Attorney General filed a letter relative to the Company's proposed fuel charge ("Attorney General Letter"). On January 31, 1995, the Company filed a response to the Attorney General's letter ("Company Response"). The Company responded to one supplemental record request of the Department.

BECo is a public utility engaged principally in the generation, purchase, transmission, distribution, and sale of electricity. The Company supplies retail electric service to an area of approximately 590 square miles encompassing the City of Boston and 39 surrounding cities and towns. BECo serves about 560,000 residential customers, 90,000 commercial customers and 1,700 industrial customers. BECo also supplies wholesale electricity to other utilities and municipal electric departments.

The Company's last base rate increase occurred in October of 1992 as a result of the Department's approval of a settlement agreement ("1992 Settlement") in Boston Edison

Company, D.P.U. 92-92 (1992). The Company's previous base rate increase before D.P.U. 92-92 occurred in October 1989 as a result of the Department's approval of a settlement agreement ("1989 Settlement") in Boston Edison Company, D.P.U. 88-28/88-48/89-100 (1989).

II. FUEL CHARGE

On January 20, 1995, the Company, pursuant to G.L. c. 164, § 94G(b), filed with the Department its proposed changes to its fuel charge and QF power purchase rates for the billing months of February, March, and April 1995. The Company's fuel charge is composed of a fuel cost component and a New Performance Adjustment Charge ("NPAC") levied in accordance with the 1989 Settlement and a Fossil Generation Performance Adjustment Charge ("FGPAC") levied in accordance with the 1992 Settlement.

A. FUEL COST COMPONENT

For the billing months of February, March and April 1995, the Company proposes no change to the fuel cost component of \$0.03059 per kilowatt hour ("KWH") pursuant to the experimental annual fuel charge approved in Boston Edison Company, D.P.U. 94-1D (1994) ("D.P.U. 94-1D") (Exh. BE-2, at 1). The Company projects that it will over-recover approximately \$14 million as of October 31, 1995 (Exh. BE-1, at 4). That is, for the period of February 1, 1995 through October 31, 1995, the Company has projected a net decrease of about \$14 million in its fuel adjustment clause expenses as compared to the fuel expenses projected in BECo's last filing when the experimental annual fuel charge was initially proposed (id. at 7; Tr. at 31). The Company stated that this over-recovery or net decrease in the proposed fuel adjustment clause expenses was the result of (1) a reduction in expenses associated with a change in the

forecast generation mix between the prior quarter and the present quarter; and (2) a reduction in replacement power expenses associated with the Company's decision not to seek recovery of such expenses in connection with outages at Mystic 5 and 6 (Exh. BE-1, at 7-8). Regarding the change in the forecast generation mix, the Company indicated that in this filing it updated the maintenance schedules of its generating units reflecting outage dates that were different than those projected in the prior quarter (Tr. at 27-29). Further, the Company stated that the Pilgrim nuclear generating unit returned to service earlier than projected (id. at 25). According to the Company, the changes in maintenance scheduling affected the availability and, hence, the dispatch of its generating units, which in turn resulted in a decrease in its projected fuel expenses (id. at 12, 27-29). The Company, however, stated that the decreases are partially offset by increases in purchase power capacity expenses (Exh. BE-1, at 8; Tr. at 32-33).

The Company proposes that a threshold of a projected \$20 million over/under recovery be established to cause an interim filing on the annual fuel charge (Exh. BE-1, at 4). The Company indicates that this amount is about five percent of its annual fuel expenses, and considers this a reasonable threshold to warrant an interim fuel charge filing (Tr. at 29-31). The Attorney General states that the Company's proposed \$20 million threshold mechanism for an interim adjustment of the experimental fuel charge is reasonable and appropriate and should be adopted by the Department (Attorney General Letter at 1).

However, the Attorney General argues that an additional step should be taken to reduce the size of the \$14 million projected over-recovery (id.). The Attorney General maintains that the Company's proposed \$1,447,024 increase in the NPAC expenses² would result in an increase to

the NPAC for the upcoming quarter should be deferred as an offset against the current projected over-recovery of fuel clause adjustment expenses (id. at 2). The Attorney General argues that allowing an increase in the NPAC defeats the stability objectives of an annual fuel charge (id.). The Attorney General contends that his proposal would better satisfy the customers' desire for price predictability and also provide benefits to stockholders by reducing the amount of interest they would have to pay on any over-recovery (id.). Thus, the Attorney General contends that by adopting his proposed offset, the Department would ensure that there is no rate increase for the upcoming quarter and would also reduce the projected \$14 million over-recovery of fuel clause expenses at the termination of the experimental annual fuel charge (id.). The Company agreed with the Attorney General's recommended treatment of the NPAC, stating that this action will result in the total fuel charge remaining constant on the customers' bills (Company Response at 1).

In D.P.U. 94-1D, the Company proposed that interest be calculated on the cumulative over/under recovery position above what would normally occur if a quarterly fuel charge was in effect. Since the Company projects that it will over-collected for the period ending October 31, 1995, the Company calculated the interest to be approximately \$165,000 (Exh. BE-1, at 8). The Company stated that the actual amount of interest would be reflected in the Company's filing of October 1995, following the end of the experimental annual fuel charge (id. at 6).

B. NEW PERFORMANCE ADJUSTMENT CHARGE

In accordance with the terms of the 1989 Settlement, a Performance Adjustment Charge ("PAC") went into effect for the three-year period beginning November 1, 1989. See BECo

² See discussion in Section II.B, below.

Tariff M.D.P.U. 783. The 1989 Settlement further provided that beginning November 1, 1992, an NPAC would take the place of the PAC (1989 Settlement at 8). See BECo Tariff M.D.P.U. 784. The NPAC will remain in effect until October 31, 2000 (1989 Settlement at 11). In D.P.U. 94-1D at 17, the Department approved an NPAC of \$0.00326 for the billing months of November and December 1994 and January 1995. The Company proposed a NPAC for February, March, and April 1995 of \$0.00356 per KWH, a increase of \$0.00030 per KWH from the NPAC currently in effect (Exh. BE-1, at 9). The Company stated that the proposed increase is attributed to an increase of \$850,000 in the 1994-1995 System Assessment of Licensee Performance Adjustment, and a \$597,024 under-collection during the October through December period, totalling \$1,447,024 (id. at 9). According to the Company, the under-collection was the result of lower than forecasted sales in the prior period (Tr. at 36).

As defined in the 1989 Settlement, the NPAC is calculated as:

NPAC = $[(\text{POUT} \times \text{PRAT}) + \text{SALP} + \text{PIA}]/\text{KWH}$, where

POUT = one-third of the Company's retail share of the KWHs of net power generated at Pilgrim during the performance year³ during which the NPAC will be in effect;

PRAT = the Pilgrim Cent-Per-KWH Rate established under the 1989 Settlement;

SALP = a Systematic Assessment of Licensee Performance Adjustment;

PIA = a Performance Indicator Adjustment; and

KWH = the estimated number of KWHs to be sold by BECo under rates subject to the Department's jurisdiction during the applicable performance year (1989 Settlement at 9-11).

³ The term "performance year" shall refer to any of the eleven consecutive twelve-month periods beginning November 1, 1989 (1989 Settlement at 9-11).

The product of the POUT multiplied by the PRAT, referred to by the Company as the Capacity Factor Adjustment ("CFA"), for the twelve-month period from November 1, 1994 to October 31, 1995 is \$48,731,469 (Exh. BE-4, at 3). The CFA is based on a forecasted 67.4 percent Pilgrim annual capacity factor ("CF") for the 1994-1995 performance year (id.).

The SALP Adjustment is based on Pilgrim's average SALP score issued by the U.S. Nuclear Regulatory Commission ("NRC") (1989 Settlement at 9). The NRC issued its most recent SALP evaluation on November 16, 1994. The average SALP score for Pilgrim in this report was 1.26 (Exh. BE-4, at 3). The 1989 Settlement provides that for each one tenth of a point that the SALP score is less than 1.6, \$500,000 will be added to the NPAC costs to be recovered over the remainder of the performance year (1989 Settlement at 9-11); thus, an increase of \$50,000 will be made for each hundredth of a point by which the SALP score is less than 1.6. Since the Company's score is 1.26, thirty-four hundredths of a point less than 1.6, the Company has included a positive adjustment of \$1,700,000 ($\$50,000 \times 34$) in the calculation of the NPAC (Exh. BE-4, at 4).

The PIA contains five individual measures reflecting performance at Pilgrim:

(a) Automatic Scrams While Critical; (b) Safety System Failures; (c) Safety System Actuations; (d) Collective Radiation Exposure; and (e) Maintenance Backlog Greater Than Three Months Old (1989 Settlement at 9-11). The PIA is based on Pilgrim's performance relative to the industry.

For the purposes of calculating the performance adjustment charge, the Company estimated that Pilgrim's performance on each of the five indicators will fall within the neutral zone (Exh. 4, at 4-5). Accordingly, the Company forecasts the Performance Indicator Adjustments for

the current period to be zero (id.).

According to the terms of the 1989 Settlement, the PAC and the NPAC may be calculated using estimates of these performance factors (1989 Settlement at 7, 11). The 1989 Settlement also provides that the Company shall reconcile any estimates used in calculating a quarterly PAC or NPAC when final information concerning the performance factor values becomes available (id.). The NPAC may change on a quarterly basis because the Company's forecast of retail KWH sales has changed or because the Company has under- or over-recovered revenues from the previous quarter. The Performance Adjustment Charge and each of its components are subject to reconciliation at the conclusion of each twelve-month period.

C. FOSSIL GENERATION PERFORMANCE ADJUSTMENT CHARGE

The FGPAC is comprised of two parts: (1) an Equivalent Availability Factor ("EAF") Incentive; and (2) a Heat Rate Incentive (1992 Settlement at 4-6).

The EAF Incentive is based on the weighted average annual EAF for the Company's fossil units -- Mystic Units 4, 5, 6, and 7, New Boston Units 1 and 2, and the Company's combustion-turbine units -- where weighing is a function of unit capacity (id. at 4). The EAF neutral zone is set at 76 percent to 84 percent. For each percentage point that the EAF falls below 76 percent for any performance year, the EAF Incentive will be a negative adjustment of \$500,000. For each percentage point that the EAF is above 84 percent for any performance year, the EAF Incentive will be a positive adjustment of \$500,000. The EAF may not exceed \$3 million, positive or negative, for any performance year (id. at 4-5).

The Heat Rate Incentive applies to the annual average heat rate at the Company's Mystic

Unit 7 (id. at 5-6). The specific heat rate goal varies based on the capacity factor achieved at Mystic Unit 7. For any performance year, the Heat Rate Incentive will be a positive adjustment of \$7,500 for each British Thermal Unit ("BTU") per KWH that Mystic Unit 7's annual average heat rate drops below the neutral zone. The Heat Rate Incentive will be a negative adjustment of \$7,500 for each BTU per KWH that the heat rate exceeds the neutral zone for any performance year (id.).

For the forecast period, the Company anticipates that its performance in each of these areas will fall within the neutral zone. Accordingly, the Company has proposed no adjustment through the FGPAC (Exh. BE-5, at 1-3).

III. QUALIFYING FACILITIES

Pursuant to the Department's rules, 220 C.M.R. §§ 8.00 et seq., rates to be paid to QFs for short-run power purchases are filed at the time of the fuel adjustment charge filing. A QF is a small power producer or cogenerator that meets the criteria established by the Federal Energy Regulatory Commission in 18 C.F.R. § 292.203(a) and adopted by the Department in 220 C.M.R. § 8.02.

Pursuant to the governing regulations, the Company is required to calculate short-run energy purchase rates on a time-of-supply basis for two rating periods: peak and off-peak. In addition, the Company is required to calculate a non-time-differentiated rate, i.e., a total period rate, which is a weighted average of the time-of-supply rates, where the weighing is a function of the number of hours in each rating period. See 220 C.M.R. § 8.04(4)(b).

In Exhibit BE-6, the Company has proposed the following standard rates to be paid to

QFs during February, March, and April 1995:

Energy Rates By Voltage Level (Dollars/KWH)

<u>Voltage Level</u>	<u>Peak</u>	<u>Off-Peak</u>	<u>Total</u>
115 KV	0.02595		0.02283 0.02399
14 KV	0.02640		0.02317 0.02437
4 KV	0.02656	0.02330	0.02451
Secondary	0.02710		0.02372 0.02497

Short-Run Capacity Rates

<u>Voltage Level</u>	<u>Short-Run Capacity Rate</u>
115 KV	0.02995 dollars/KWH
14 KV	0.03079 dollars/KWH
4 KV	0.03125 dollars/KWH
Secondary	0.03224 dollars/KWH

IV. ANALYSIS AND FINDINGS

The Department finds that the Company's proposal to establish a threshold of a projected \$20 million over/under recovery to cause an interim fuel charge filing is reasonable. Accordingly, the Department directs the Company to file an interim fuel charge adjustment should the Company's cumulative over/under recovery position exceed \$20 million.

The Department further finds that the Attorney General's proposal to offset the \$1,447,024 increase in NPAC expenses against the \$14 million over-recovery position projected by the Company for the period ending October 31, 1995 is consistent with the objectives of price stability and predictability for the Company's customers as adopted by the Department in Boston Edison Company, D.P.U. 94-1D at 16 (1994). Therefore, the Department will approve the

recommended treatment of the NPAC.⁴

Based on the foregoing, the Department finds:

1. that the fuel cost component of the fuel charge to be applied to Company bills issued pursuant to meter readings for the billing months of November 1994 through October 1995 shall be \$0.03059 per KWH, subject to refund and to quarterly review; the New Performance Adjustment Charge component of the fuel charge to be applied to Company bills issued pursuant to meter readings for the billings months February, March, and April 1995 shall be \$0.00326. The fuel charge shall be comprised of a fuel cost component calculated as shown in Table 1 attached to this Order, and a New Performance Adjustment Charge calculated as shown in Table 2 attached to this Order; and

2. that the QF power purchase rates for February, March, and April 1995 shall be the rates set forth in Section III of this Order.

V. ORDER

Accordingly, after due notice, public hearing, and consideration, it is

ORDERED: That Boston Edison Company is authorized to put into effect a fuel charge of \$0.03385 per kilowatthour as set forth in Section IV, Finding 1, of this Order for bills issued pursuant to meter readings in the billing months February, March, and April, 1995, subject to refund; and it is

FURTHER ORDERED: That the fuel charge approved herein shall apply to kilowatthours

⁴ While the Department's decision has the effect of creating an annualized NPAC, the Department will allow interested persons to comment on this treatment of the NPAC in the next quarterly review of the fuel charge.

sold to the Company's customers subject to the jurisdiction of the Department and shall be itemized separately on all such customers' electric bills; and it is

FURTHER ORDERED: That the Company's Qualifying Facility power purchase rates for the billing months of February, March, and April 1995 shall be those stated in Section IV and found to be proper in Section III of this Order; and it is

FURTHER ORDERED: That the Company, in all future fuel charge proceedings, shall notify all intervenors and their respective counsel from the Company's prior two fuel charge proceedings that it is proposing an adjustment to its fuel charge, and shall also notify these persons of the date scheduled for the hearing on the proposed fuel charge at least ten days in advance of the hearing; and it is

FURTHER ORDERED: That the Company, in all future fuel charge proceedings, shall provide all intervenors and their respective counsel from the prior two fuel charge proceedings with a copy of its fuel charge filing, in hand or by facsimile, on the same day it is filed with the Department; and it is

FURTHER ORDERED: That, pursuant to G.L. c. 164, § 94G(a) and (b), the fuel costs allowed by this Order are subject to such disallowance as the Department may determine in any subsequent investigation of the Company's performance period that includes the period applicable to the present charge; and it is

FURTHER ORDERED: That the fuel charge shall appear as a separate item on all customers' electric bills and shall be referenced with a footnote that will identify each customer's fuel cost component and will explain that the fuel charge also includes the New Performance Adjustment Charge.

By Order of the Department,

Kenneth Gordon
Chairman

Mary Clark Webster
Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).